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SOVIET IMPERATIVES FOR THE 1990's

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SOVIET IMPERATIVES FOR THE 1990's

THURSDAY, SEPTEMBER 12, 1985

U.S. SENATE,
SUBCOMMITTEE ON EUROPEAN AFFAIRS,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, at 10:09 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Larry Pressler (chairman of the subcommittee) presiding.

Present: Senators Pressler and Pell.

Senator PRESSLER. I will call this meeting of the Subcommittee on European Affairs to order.

We are very pleased to welcome everyone to this first session of our series of seven hearings on United States-European relations.

The overall title of the series is a provocative one: "Is NATO Still the Centerpiece of U.S. Foreign Policy—Should It Be?"

We hope you will join us as our committee grapples with a number of very important issues in advance of the United States-Soviet summit.

A complete schedule of issues to be discussed, including the dates and times, is available in the press room, next door, room 415. Copies of prepared statements and materials for the press and public are also available in the press room.

I believe that many of the issues most crucial to the United States and our European allies through the 1990's, whether they are bilateral, NATO-related, or East-West, will be examined in these seven sessions.

We look forward to rigorous analysis and thought-provoking questions. We also hope that many of our guests will carry these discussions further in the media, in foreign capitals, in academia, and among citizens.

The title of this morning's session is "Soviet Imperatives for the 1990's." Our discussion will focus on the critical factors that will drive the Soviets to adjust strategy and policy by the 1990's.

We are very fortunate to have as our first speaker this morning Dr. Zbigniew Brzezinski. Dr. Brzezinski has followed Soviet foreign policy for the past 35 years, from his earliest years at Harvard, where he received a Ph.D. in 1953.

Dr. Brzezinski is the author of "Politics in Soviet Totalitarianism," "The Soviet Autocracy," "The Soviet Bloc's Unity and Conflict," "Ideology and Power in Soviet Politics," and, most recently, he is the author of "Power and Principle, the Memoirs of the National Security Advisor, 1976-81."

Dr. Brzezinski is a frequent contributor of articles in the fields of comparative government and international affairs, he is a full professor of government at Columbia University, and is currently counselor at Georgetown University's Center for Strategic and International Studies.

He was President Carter's National Security Adviser from 1976 to 1981, and has served the last five Presidents in various capacities, including President Reagan.

Dr. Brzezinski was most recently a member, this past spring, of the President's Review Commission on Chemical Weapons.

We welcome Dr. Brzezinski to the Senate.

STATEMENT OF ZBIGNIEW BRZEZINSKI, FORMER NATIONAL SECURITY ADVISER TO PRESIDENT CARTER, AND COUNSELOR, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, GEORGETOWN UNIVERSITY

Mr. BRZEZINSKI. Thank you very much, Mr. Chairman.

Let me begin by congratulating you and your colleagues on these hearings. They are timely. They deal with an important issue that affects centrally not only our national security but the American-Soviet relationship as a whole.

EUROPE: THE CENTRAL SOVIET GEOPOLITICAL CONCERN

You have asked me to discuss Soviet policy toward Europe and the possibilities of change in that policy in the course of the coming decade.

I would like to take as my point of departure the very important proposition that Europe, for the Soviets, is absolutely the central geopolitical concern.

Soviet policy toward the United States takes Europe as its point of departure, and, in that respect, it has both defensive and offensive aspects to it.

Defensively, Europe is central to Soviet concerns because the international status of the Soviet Union as a major world power is dependent on continued Soviet control over Eastern Europe. It is only through that control that the Soviet Union exercises a major influence on European affairs. It is only through that control that the Soviet Union obtains the status of an imperial power. Hence, control over half of Europe is a major defensive Soviet concern, and determines the geopolitical thrust of Soviet policy.

That policy has also an offensive component, and it is an important one. It aims at the decoupling of Western Europe from the United States, for that linkage between Western Europe and the United States deprives the Soviet Union of a dominant position with regard to Europe as a whole.

I think that, if we look at the Soviet relationship with Europe historically, we can find both of these concerns reflected over the course of the last 40 years in Soviet policy.

Insofar as Eastern Europe is concerned, ever since the acquisition of direct political control over Eastern Europe, the Soviet Union has consistently sought to stabilize that control and to make it enduring. To accomplish these objectives, it has used force, through direct military intervention when necessary, and it has

pursued systematically efforts designed to institutionalize closer links between Eastern Europe and the Soviet Union, tying Eastern Europe to the Soviet Union through a variety of political and economic relationships. The Warsaw Pact and the Council of Economic Mutual Assistance are the most evident examples of what I had in mind.

But, beyond that, there have been efforts to deepen and to intensify the political-ideological relationships between the Soviet Union and Eastern Europe. These, in the course of the last year, have been intensified under the new Soviet leadership, which is approaching the issue with greater energy and determination.

It is rather striking that, since Gorbachev has come to power, Soviet efforts to constrain the relative autonomy of Poland have been intensified, and some Soviet criticisms of the relatively independent economic policy of Hungary have been openly voiced.

All of that reflects the Soviet desire to maintain an effective, dominant position in regard to Eastern Europe.

TRADITIONAL SOVIET STRATEGY: DECOUPLING WESTERN EUROPE

Insofar as Western Europe is concerned, throughout the same historical era, the Soviet Union, at different times, has attempted to use its political-military leverage to detach Western Europe from the United States.

That, after all, was the underlying purpose of the two Berlin crises. Both of these crises created major international tensions, but neither of these crises was about Berlin itself. The purpose of each of the two Berlin crises was to create a situation in which European security was detached from that of the United States.

That was the underlying purpose of these crises. Had Soviet policy succeeded in either one of these two crises, there would have followed a decoupling of Western Europe from the United States.

Beyond that, the Soviet Union has pursued that objective through more indirect means, diplomacy and propaganda, designed to forestall such developments as the EDC, the European Defense Community. Here to an extent, though not necessarily because of Soviet efforts, the Soviet objective was attained and the Community did not come into being. The Soviets also pursued the goal of separating Western Europe and the United States through their massive campaign against INF, the intermediate nuclear force deployments, which in the end failed.

A SOVIET STRATEGY FOR THE 1980'S–90'S: THE PROGRESSIVE NEUTRALIZATION OF EUROPE

As we look ahead to the next decade, I think there is now some indication that the thrust of Soviet efforts is changing not so much in substance, but to some extent in form. I would say that the Soviets are probably now aware of the fact that a formal, general decoupling of Western Europe from the United States is not attainable, but that it is possible to pursue a policy designed to attain the progressive neutralization of the substance of NATO. This is to say, their goals may be to seek such political change that would deprive NATO of much of its political substance and to create conditions under which membership in NATO, while formally maintained,

substantively ceases to mean close political security coordination between the respective European nations and the United States. In effect, NATO would remain as an alliance in form, but it would be essentially a relationship between the United States and an increasingly neutralized Western Europe.

Germany is clearly the focal point of such a hoped for development, and it is, therefore, a major focus of Soviet efforts. If Germany, over time, could be pushed in the direction of adopting a posture which, in effect, makes Germany substantively neutral on the major foreign policy issues, then the global configuration of power that the Soviets desire would be significantly advanced.

Here, it seems to me, the Soviets are obviously focusing on such possibilities as closer East-West German economic relationships. They are bound to exploit the understandable German feelings about the importance of preserving all-national German links. They certainly are already benefiting from the fact that West Germany is subsidizing East Germany to a very large extent, even though East Germany is one of the major partners of the Soviet Union in Eastern Europe.

The Soviets certainly have been gratified by the fact that Germany has pursued a somewhat differentiated position vis-a-vis its allies in regard to the martial law regime that was adopted in Poland.

All of that, in my judgment, is designed to exploit what might be called the condition of a more generalized historical fatigue that still prevails in Western Europe.

Europe has not found its moorings, almost 50 years after the collapse of Europe in the course of the Great Depression and World War II. It has not really defined its identity. It remains partitioned and unclear as to its historical mission. This, I think, is the greatest opportunity the Soviets face insofar as the future of Europe is concerned.

It is not so much a matter of overrunning Western Europe through a military invasion or directly subordinating it into the status of a satellite; but, rather, progressively transforming Western Europe into a relatively weak, semidependent, and essentially neutral region in the world.

I think the Soviets have some reasons to calculate that this is not entirely a farfetched scenario.

A COMPLICATED UNITED STATES-EUROPEAN RELATIONSHIP IN THE NEXT DECADE

In the next several years, we are likely to see changes in Western Europe that will probably complicate greatly the American-European relationships. We have been blessed over the last several years to have a relatively good relationship between the United States and Western Europe and a great deal of commonality of perspective. However, that may change.

There are, first of all, going to be political changes in France that are likely to polarize the political situation and might create a stalemate between the executive and the legislative branches with unforeseeable consequences for the subsequent orientation of the French body politic.

In Germany, the SPD has become a quasi-neutralist party already, and one straw in the wind is the recent agreement signed between the SPD and the East German Government regarding a joint position on chemical warfare that is thoroughly compatible with the Soviet strategic perspective and quite in conflict with the prevailing Western strategic perspectives.

Even in Britain, there looms at least the possibility of a reorientation in the wake of the next elections if current political trends are sustained.

Thus, we may be entering a rocky period in West European-American relationships which will create openings for the Soviet Union.

IMPLICATIONS FOR THE UNITED STATES: WHAT KIND OF EUROPE DO WE WANT?

That raises—and this is the last point I wish to make—the question of what are the implications of this for us.

It seems to me, as we look ahead, that we have to recognize one basic fact: the present condition of Europe—its division and the close association of its two halves with preponderant extra-European superpowers—is not likely to endure indefinitely.

The question then arises: If it is to change, how is it to change in a manner most beneficial to us?

I have already postulated that the Soviets are thinking less of direct control of Western Europe and of dramatically decoupling Western Europe from America; but rather more of a progressive process of neutralization, which leaves Western Europe weak, dependent, and neutralized.

I think we have to realize that a change in Europe is not likely to produce conditions whereby Europe is reunified as an extension of American power.

In other words, the eventual end of the partition of Europe—the creation of a condition more compatible with European history and aspirations—is not likely to involve simply the expansion of NATO Europe to the East, because the Soviets are strong enough to prevent that. If the present condition is not to endure, and if we do not wish to be faced with a progressive neutralization of a weaker and more dependent Europe, then we have to consider the possibility that perhaps we ought to strive more deliberately to stimulate the emergence of a strong, self-sufficient, self-reliant, but somewhat more distant Europe, one more capable of standing on its own feet, more inclined to develop its own links with Eastern Europe. We also ought to seek to create eventually a Europe that is more truly European, though less integrally related to us in the strategic and political realm.

That will require a process of deliberate stimulation. It will require also, it seems to me, some gradual changes in the nature of our security relationship.

RECOMMENDED CHANGES IN OUR SECURITY RELATIONSHIP WITH EUROPE

The overall security commitment has to be maintained, under all circumstances, because were it to be severed, Europe would quickly

slide into dependence on the Soviet Union. However, changes in the nature of that security relationship, I think, may be becoming timely. I believe that the overall nuclear guarantee should be maintained under all circumstances; that the United States should still retain a conventional military presence in Europe; but, that some gradual adaptation in the nature and level of that conventional presence may be becoming timely.

The best way to achieve those changes would be, if possible, by mutual agreement with the Soviets. This is why I personally would favor the activization of the MBFR negotiations and, perhaps at least initially, somewhat greater flexibility on the U.S. part, insofar as first step troop withdrawals of both American and Soviet forces are concerned.

I think revitalizing this process could be helpful in creating a more healthy situation in Europe.

Beyond that, we do have to start thinking seriously about the need to readjust the levels of American conventional ground forces in Europe.

I would merely like to note here, Mr. Chairman, that this is not, by now, either a very heretical or a revolutionary point of view.

Insofar as American discussion on the subject is concerned, in the course of the last year such respectable and essentially centrist individuals as Senators Nunn and Glenn on the Democratic side have addressed themselves to this issue, and on the Republican side, Mr. Kissinger has spoken about the possibility of a 50-percent reduction of American ground forces in Europe. I, myself, have written about the desirability of a progressive, 10-year program for the gradual reduction of American forces in Europe. In addition, very recently, in the last several weeks, former Chancellor Schmidt has indicated that a reduction in American conventional forces in Europe can be contemplated in the wake of greater Franco-German military cooperation.

That is precisely the direction in which we should be headed. For it seems to me that, if we can stimulate in Europe a sense of a more genuine political security responsibility and a more authentic European identity, we are more likely to recreate over time a more vital Europe, which can stand on its own feet and which is less likely to become subject to a Soviet policy seeking to neutralize it.

If such a Europe begins to emerge, then we can be quite confident that the internal frictions of Eastern Europe and the desire for more basic change in Eastern Europe will make themselves felt.

I would like to conclude, Mr. Chairman, simply by reading few sentences from a rather remarkable article that appeared this spring in Encounter magazine by the noted British historian, Hugh Seton-Watson. Seton-Watson was one of the most outstanding British historians on European affairs, who, unfortunately, passed away this spring. The article was published posthumously.

It is entitled, "What is Europe? Where is Europe?"

I think his comments are extremely pertinent to this inquiry regarding the future of Europe and its significance for the American-Soviet relationship.

This is what Prof. Hugh Seton-Watson had to say, and I will stop with this quotation:

Let us stop thinking of the Soviet colonial empire as permanent, and stop speaking of the EEC's neoCarolingian empire as Europe. There is nothing war mongering or sacreligious about these small changes in vocabulary. The European cultural community includes the peoples living beyond Germany and Italy, and this is something which we should never forget, something in no way annulled by the fact that they cannot today belong to an all-European economic or political community. This is all the more reason for promoting and for making the best possible use of every sort of cultural contact with them that offers itself, and to show constantly that we recognize them as fellow Europeans.

Thank you.

Senator PRESSLER. Thank you very much for your excellent testimony.

Let me begin by asking you a few questions based upon your testimony.

First of all, what is your assessment of the new Soviet leader, Gorbachev? Several of my colleagues in the Senate recently have met with him and acquired a fairly favorable impression—favorable in the sense that they think he is very competent and smart, and that he may be more of a problem for the United States.

What is your assessment of Gorbachev?

Mr. BRZEZINSKI. Well, I have no doubt, Mr. Chairman, that he is able and smart, although I do feel that the Western mass media and some Western statesmen are going bananas over Gorbachev simply because he happens to wear a tie and a clean shirt and a well cut suit and his wife does not look like a beast. [Laughter.]

If you read the recent interview that was published in Time magazine, a remarkable piece of puffery, you find, first of all, Gorbachev described as "remarkable" because he has piercing eyes, mobile hands, and wears a gleaming white shirt, and other discoveries of this sort, which I would have thought were normal attributes of civilized appearance.

Beyond that, there is an inclination, it seems to me, throughout the West, in general, to overdramatize him individually.

Dennis Healey, in a personal profile of Gorbachev, described him, and I think I can paraphrase this pretty accurately from memory, as a person with an extraordinarily sensitive face across which emotions flicker, like a gentle summer breeze across a lake.

I find this kind of gushy-gooey attitude disturbing, because it really plays into the hands of the Soviets in what is likely to be a massive public relations campaign directed at the United States and at the European-American relationship. However, it does not address itself to the more basic questions of the sort of leader he is and what kind of policies he is likely to produce.

GORBACHEV: WHAT SORT OF MAN IS HE?

Here let me make two points that I consider to be quite important. First of all, he is the first Soviet leader, ever, to have been selected by his predecessors and not to have taken power himself.

Lenin did not choose Stalin. Stalin did not choose Khrushchev. Khrushchev was surprised when Brezhnev took his power away. Brezhnev did not choose Andropov. Andropov did not choose Chernenko. However, Gorbachev was chosen by his predecessors.

This raises the question of what kind of person is likely to be chosen by a generation of older leaders who see themselves on the brink of being supplanted. I suspect it means that he is intelligent,

that he is quite an operator, and that he is probably somewhat obsequious and ingratiating. This does not tell us yet that he is a decisive, strong leader, who can make it on his own, who can seize power himself, exercise it effectively, and ruthlessly if need be. Therefore, he is still an uncertain entity.

We also know a little bit from organizational experience that dominant elder leaders, when they choose younger successors, tend to choose successors who they think will follow in their footsteps, and that they are not always most effective in choosing the dynamic, truly assertive, leaders.

Second, every Soviet leader since Stalin's death has had less power than his predecessor, simply because the system has become more institutionalized and more bureaucratized.

This leads me to the view that Gorbachev's margin for decisive initiatives, for really dramatic departures from established policies, is probably not quite as wide as might be inferred from the extremely silly, superficial, and overly enthusiastic impressions that are being generated by the Western media and some Western statesmen. The impression that they create is of a man totally in charge, on the brink of adopting far-reaching reforms, domestically or in foreign policy.

I personally think that his power is probably somewhat more constrained and that the prospects of truly significant departures in domestic or foreign policy are far more limited.

Senator PRESSLER. I was fascinated with Gorbachev's decision to replace Gromyko as foreign minister with someone about whom we had not heard.

Also, I was surprised about his choice for foreign minister, because a person like him would probably not have been appointed in the United States. This committee would probably have objected to him because he does not have enough of a background in foreign affairs.

Mr. BRZEZINSKI. There is some precedence for that.

Senator PRESSLER. Pardon?

Mr. BRZEZINSKI. There is some precedence for that.

Senator PRESSLER. Would you give us an analysis of the new Soviet foreign minister, and how Gorbachev had enough power to remove Gromyko, if, indeed, he did?

Mr. BRZEZINSKI. We, of course, do not know in any detail what sort of arrangement was made and who was the source of the decision for Mr. Gromyko to become, in effect, the head of state, and Mr. Chevardnadze to become foreign minister.

Let me merely say this. Had Mr. Gorbachev become the head of state and had Mr. Gromyko remained foreign minister, we also would all have said and read that Mr. Gorbachev has made a major coup, that he has now consolidated in his hands the top position in the party and in the state, that he has done it with extraordinary rapidity, and that this proves how much power he has.

In other words, what I am saying is that had he done the opposite of what transpired, the same conclusion would have been voiced by the mass media, by experts, and by everyone else.

That leads me to the view that perhaps there is something wrong with our analysis, if, in either case, we make the same conclusion, even though the specific acts would have been quite different. In

one case, Gromyko is kicked upstairs and becomes a head of state; in another case, Gorbachev also becomes head of state. However, in both we conclude that he has consolidate his power.

It is conceivable that the elevation of Gromyko might have been, at least in part, motivated by a desire within the top leadership not to let Gorbachev consolidate all of the top positions in his hands.

There was widespread expectation, incidentally, in the Soviet Union that the Prime Minister, Tikhonov, who is now 79 or 80, I believe, would be replaced, and that the replacement would be someone close to Gorbachev, much younger and from his generation. That did not happen.

GORBACHEV: NOT PERMITTED TO CONSOLIDATE ALL POWER IN HIS HANDS

So, we may be dealing with a situation in which there is much more deliberate distribution of power, with Gorbachev clearly being in the central position as General Secretary of the Party but not being permitted to consolidate in his hands all of the top positions.

As far as Chevardnadze is concerned, I really do not have much to add. I have, of course, followed his political career, and I am struck by the fact that he has had at one time in Soviet Georgia close links to the secret police apparatus. He was Minister of the Interior.

I consider that significant because today in the top Soviet leadership there is an unprecedented presence of a cluster of able officials in their mid-fifties with extensive ties to the secret police. You might almost say that the "KGB Mafia" is becoming the critical core of the Soviet leadership.

These are intelligent people, well trained, very tough-minded, quite ruthless, but sophisticated. In that sense, they are more likely to give the Soviet leadership more efficient leadership, but they are not necessarily going to embark on dramatic liberalization or decentralization in the Soviet Union. If anything, the result would be quite the opposite.

Senator PRESSLER. In the mid-1950's, Nikita Khrushchev was able to pursue a more flexible foreign policy after he consolidated his power. Now, Gorbachev has apparently consolidated his position of power by removing Romanov and Gromyko as major players.

Do you see an analogy with Khrushchev, and will Gorbachev be able to be more flexible in the upcoming summit?

Mr. BRZEZINSKI. I think it would be difficult for him, as I said earlier, to undertake policies which involve a marked departure from ongoing policies. However, adaptations at the margin are possible.

I think that the Soviet leadership recognizes that its economy has considerable difficulties and that these difficulties are not likely to be ameliorated without some reduction in the burden of defense expenditures. Therefore, I think that the Soviet leadership is going to probe for the possibilities of some arms control accommodation.

However, for a more basic change in the East-West relationship to transpire in addition to some movement in the arms control area, there would have to be some adjustment in regard to the critical geopolitical issues. Here the one to focus on clearly is Afghanistan, for Afghanistan involves a potential, long-range threat to the stability of southwest Asia. Afghanistan is not only an issue confined to Afghanistan. It really is an issue which pertains to the future orientation and maybe even stability of Pakistan and Iran. Therefore, it is a very major geopolitical matter in the American-Soviet relationship.

If Gorbachev was prepared to signal some give on Afghanistan, I would consider that to be a very major change in Soviet policy. Some limited accommodation in arms control I think is much more marginal, and more likely. Therefore, I would look closely at what happens on the issue of Afghanistan. I think this is an issue that we, ourselves, ought to be prepared to discuss with the Soviets in a serious vein. Such discussions should not be used merely for purposes of polemics, but rather to probe whether there is some Soviet willingness to explore the possibility of a constructive, mutually acceptable arrangement for Afghanistan that would not only guarantee the neutrality of Afghanistan and genuinely and effectively assure such neutrality, but also guarantee the prompt removal of Soviet forces from Afghanistan.

Senator PRESSLER. Some of those who have met with Gorbachev fear that in the upcoming summit, Gorbachev will have a clearly defined list of priorities to present to the United States, such as keeping weapons out of outer space, and so forth.

Of course, I am sure that our President has a clearly defined list also, ranging from Afghanistan to Poland.

In-terms of the U.S. agenda, what should President Reagan's list of priorities be? Also, perhaps you could comment on the propaganda war. It seems that in the international media, that Gorbachev is on the offensive in terms of his priorities, and that that advantage should be reversed. Taking these points into consideration, how would you prepare the President for the summit? What would you suggest should be on his list of priorities?

Mr. BRZEZINSKI. Well, without being too specific—I think for reasons that are self-evident—I would say that in the course of the summit the United States, while maintaining the formal position that this is an exploratory summit to define the agenda for the future, should be ready to make proposals in two areas. However, I do not think I would like to be specific about these proposals, for obvious reasons.

One is for a limited, interim arms control arrangement. A summit is not conducive to a broad accommodation in the arms control area, which is extraordinarily critical, but also complex. Nonetheless, I think it does permit the two leaders to explore the possibility of a limited interim agreement, which could then serve as a catalyst for accelerating the arms control process.

At the same time, I think we should also be ready to propose to the Soviets some specific, concrete arrangements regarding the resolution of the Afghan problem.

I think that if the Soviets were to respond positively to both, the summit could then be a major turning point in the relationship, not altering it fundamentally—because no summit will—but nonetheless, significantly improving, for the time being, its nature.

If the Soviets were to rebuff us on both, or even on one of the two proposals, I think we would be in a better public relations position than we would be otherwise. We should anticipate that Gorbachev will make some dramatic proposals designed essentially to put Mr. Reagan on the defensive and also to stimulate friction between the West Europeans and the United States, which I think is going to be one of the major objectives of the summit from the Soviet point of view.

Senator PRESSLER. One thing that has intrigued me for a long time is the nature of the Soviet character and the issues that inspire them. There appear to be two or three layers of Soviet citizens. First of all, there are Communist Party members and others in leadership posts. What inspires them? And, is this inspiration quite different from those who are less privileged?

Second, there is the middle level, the managers, the bureaucrats, the farm managers, the people who do well considering the nature of the Soviet system. What underlying beliefs inspire them? They must be aware of the standard of living in the West, particularly that of Western Europe and the United States. They are making enormous sacrifices, both in terms of consumer goods and opportunities for advancements. Why do they stay?

Third, there are masses of poor people. I am told that the average life span of the Soviet male is not growing, but rather has shrunk, that psychological stresses in the Soviet Union are great, and that most people are well aware of their deprivation. Soviet citizens are making enormous sacrifices to support the growth of their military machine, much more so than we do. What is it that keeps them going, what is it that inspires them?

Some people say that it is coercive force that forces them to be so obedient. Yet, even in a dictatorship, Soviet leaders must certainly find it necessary to carry the support of the people for the most part. What inspires the Soviets to do what they are doing?

Mr. BRZEZINSKI. I think you have raised a terribly difficult question to answer. Let me take a stab at it.

I would say that for the masses as a whole the basic attitude is one of passivity and patriotism. The masses of the Russian people—and I am now speaking mostly of the Russians, rather than of the non-Russians, because the broader question becomes more complicated and tends to involve some separatist aspirations—are by a great majority patriotic, very orthodox, somewhat indoctrinated, and quite ignorant about conditions in the outside world, with very little understanding of the difference between their standard of living and that of the rest of the world.

THE SOVIET CITIZEN: WHAT IS HE LIKE?

The average Soviet citizen is quite convinced that he is much better off than the rest of the world because that is all he knows. His needs are not very large, and he is accustomed by centuries of conditioning to sacrifice for the country. There is a sense of a

larger community and genuine patriotism that unites the people in a relatively homogenious, rather orthodox, fashion.

You are right that the middle levels are more familiar with what goes on abroad. They have a vested interest in their positions and privileges, and for some of them these privileges are reasonably extensive. Also, in the middle levels now in the Soviet Union, you find something that you did not find under Lenin and Stalin, but that you did find in the later era of the tzarist epoch, namely, massive corruption, a kind of cynicism and willingness to cut corners. This is pervasive. It involves attempts to go abroad as often as possible, the buying of goods abroad, their smuggling and trading, the acceptance of bribes, and so forth. This is a situation that was not prevalent in the Soviet Union 30 or 40 years ago. Now you can do a lot in the Soviet Union simply by bribing officialdom. That tells you something about the attitudes at the middle levels.

At the top, I would say it is a combination of a sense of big power identity that moves the leaders, as well as what is certainly a Communist perspective. It may not be as militantly believed in as by their predecessors, but it is internalized by years of conditioning, by the existence of a bureaucracy that creates a certain shared perspective, and by the desire to be preeminent worldwide.

This is not an unusual condition. Different nations in different stages of their history have wanted to be dominant. It is an almost organic, psychologically widespread condition. Britain's quest for greatness, or France's or Germany's, for that matter, were not the products of one man. They were the product of an elite attitude that was simply driven somehow by the desire to be No. 1. We experienced that, certainly from 1890 until recently. The United States was really motivated by a sense of "Manifest Destiny." It wanted to be No. 1 and felt it should be No. 1.

A SOVIET DESIRE TO BE NO. 1

I think that this attitude is a very strong motivation in the Soviet leadership, and it does focus Soviet attention on the United States, because rivalry with the United States is the way to become No. 1. Hence, they are very much driven by the desire to supplant the United States, which does not mean that they want to destroy us in a war. That is a simplistic point of view. It does mean that they see themselves as being in a historical competition with us, which means, in turn, that they have to undertake certain sacrifices and be prepared to strive for a long time.

I think that the big difference between them and us is that they have a long-term view of the American-Soviet relationship, whereas we tend to swing back and forth from a kind of hysterical preoccupation with the cold war to a euphoric anticipation of detente. The Russians are much more steady in this respect because they have this deeper historical motivation.

Senator PRESSLER. Soviet military expenditures seem to have taken a sharp turn toward increased research and development as opposed to traditionally high levels of procurement. What are the implications of this shift? I might add to this question that I was privileged to accompany Senator Dole and a group of Senators when we had a meeting with Mr. Genscher, the German Foreign

Minister. He knew Gromyko when he was in Washington as Ambassador, in the early 1950's or late 1940's. He said that Gromyko was always very fascinated with the development of the atomic bomb, particularly the fact that an open society like the United States could have sustained such a level of secrecy in research and development. He was always surprised about our R&D.

Genscher suggested that the Soviet concern over the strategic defense initiative in part sprung from Gromyko's belief that the United States really might pull it off, that our R&D is so strong that we really might do it. We might be able to come up with something totally new. He believes that this is why the Soviets may have overreacted to the strategic defense initiative, or at least why they seem so concerned about it.

In any event, is this the reason why they are making a sharp turn toward increased research and development in their military expenditures?

Mr. BRZEZINSKI. I think that the Soviets have had over the years enormous respect for American technological capability. That goes back to the 1920's, the 1930's, and even before.

Certainly the first Soviet 5-year plan was based to a significant degree on the effort to adopt to Soviet conditions American technological innovation in the construction of automobiles, tractors, modern steel plants, and so forth.

That aspect intensified during World War II, when, as a result of massive American military deliveries and logistical support, the Soviets were exposed to the creativity and variety of American industrial capacity.

There was a brief period in the 1960's—the work of Sputnik—when the Soviets, I think, entertained the delusion that their own technological development had equalled America's and that perhaps they were on the brink of surpassing the United States. They were disillusioned by the race to the Moon, however, which they took extremely seriously and which ended, from their point of view, in a humiliating defeat.

Since then, I think they have seen the United States compensate for its relative military weakness by technological innovation, and more and more Soviet military experts have begun to emphasize, therefore, the importance of improved technology rather than simply the acquisition of large amounts of weaponry. Marshal Ogarkov clearly has been spearheading that debate.

THE DANGER OF THE SDI TO THE SOVIETS

The SDI, I think, poses two dangers as they see it. One is that it might nullify the Soviet strategic edge, even in the near future, if the United States were to deploy a counter first strike strategic defense, which we could do in the course of the next decade or so.

The other danger that they see in the SDI is that it could become the catalyst for an innovative research and development effort that might have a lot of other spinoffs, not only in the security area, but for the economy as a whole. In that sense, I think that they take it quite seriously, and they view it as another indicator of the difficulty of catching up with the United States.

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I think R&D, scientific innovation, is a very major source of our leverage on them, and it is very important that we continue to exercise it. Otherwise, the alternative would be to have to match them both in conventional and strategic systems, particularly in terms of quantity. That could be extraordinarily expensive.

Senator PRESSLER. The British and French nuclear forces are a fascinating development in terms of their effect on nuclear strategy. I know that originally the United States was uncomfortable with the concept of an independent British and French nuclear forces. In a recent visit to France, it was pointed out that the French would make an independent decision on the use of nuclear weapons if the Soviets invaded Germany. For the first time, I began to believe that perhaps it is a good thing that the French have an independent force not subject to U.S. dominance over the decisionmaking processes. They may be a wild card, and nobody knows what they would do; could this enhance their deterrence value?

How do you assess this issue?

Mr. BRZEZINSKI. I am generally sympathetic to the notion of an independent French and British, perhaps eventually European, nuclear force because I believe that in the long run the geopolitical interests of the United States would be better served if there were a revival of a more genuinely authentic and self-reliant Europe. A genuinely authentic and self-reliant Europe cannot evolve if it remains dependent on external protection and remains historically a protectorate. That condition is politically demoralizing, and it perpetuates the historical fatigue of which I have spoken.

THE PARTITION OF EUROPE PUTS THE UNITED STATES AND THE SOVIETS AT LOGGERHEADS

I, therefore, feel that any effort by the Europeans to assure to some degree their defense is politically desirable, and it is likely to create in the longer run a more vital Europe that can stand on its own feet and begin gradually to undo its partition, thereby creating a more stable relationship between the United States and the Soviet Union. For it is, to some extent, the continued partition of Europe and its prostrated condition that locks America and Russia into a competition for control of Europe. I think a self-reliant and more independent Europe would create a more balanced international situation, and I support these efforts.

From a purely military point of view, while at this stage the military significance of the Franco-British nuclear deterrent is relatively marginal, by the mid-1990's it will assume a scale that will be more significant. There will be approximately 1,700 delivery systems in the possession of the British and the French, and that begins to represent a rather major complication for the Soviets in terms of their planning.

Senator PRESSLER. In terms of affecting Europe, I was fascinated with your opening statement that the Soviets' long-term goal has been to decouple Europe from the United States. As you pointed out, they already control Eastern Europe, and such a strategy would significantly alter the geostrategic balance. But, insofar as their control of East Germany and Poland, appears much stronger

than their control of Hungary, Czechoslovakia, and Yugoslavia, will we see greater independence on the part of the latter three countries in the future?

Mr. BRZEZINSKI. I do not agree that Soviet control over Poland and East Germany is stronger than Soviet control over Czechoslovakia and Hungary and, I think you mentioned, Yugoslavia.

Senator PRESSLER. Really?

Mr. BRZEZINSKI. In the case of Czechoslovakia, Soviet control is very firm, and Soviet troops are also in Czechoslovakia. The Soviets have permitted the Hungarians to pursue a domestic economic policy that has been beneficial to the Hungarians, but they have maintained very effective control over Hungary's foreign policy and political life. The one country that is truly independent is Yugoslavia, though Yugoslavia is beginning to undergo some serious internal difficulties that we ought to be monitoring closely because we have a stake in the continued independence and stability of Yugoslavia.

DIFFERENTIATED SOVIET CONTROL OVER EASTERN EUROPE

I agree with the proposition that Poland and East Germany are central in a military-political sense to the Soviet position in Central Europe because of their geographic location. However, Poland is a much more complicated case. The Soviets control Poland externally, and they have a pliant regime in Poland that does the Soviets' bidding. However, in the last several years we have seen the emergence in Poland of something without precedent in the history of communism or of any Communist country—namely, the appearance of a quasi-autonomous society that has its own mass communications, underground journals, papers, radios (there were 900 underground publications last year). This quasi-autonomous society conducts its own political dialog and has its own identity.

In that sense, I think that while ostensibly firmly in control of Poland, the Soviets have to think in the longer run whether or not the existing arrangement can endure. If it cannot, they must decide whether they should turn to what is really massive repression to try to crush those who oppose them, or to begin at some point to accept a somewhat more autonomous Poland, tied to the Soviet Union by an external alliance but less dominated ideologically and politically—not quite like Finland, but something between, let's say, Finland and Hungary.

Senator PRESSLER. I thank you very much.

We may have a few additional questions for the record. We thank you very much for being here. Your testimony was excellent and contributed a great deal.

Thank you very much.

Mr. BRZEZINSKI. Thank you.

It was very good to be with you.

Senator PRESSLER. I shall now call forward a panel which will address the Soviet "guns-versus-butter" dilemma. I would like to remind those of you who joined us after my opening remarks this morning that this is the first of a series of seven hearings on the United States-European relationship. It will cover a wide range of issues, including economic, military, and political issues. The over-

all title of the series is a provocative one: "Is NATO still the centerpiece of U.S. foreign policy? Should it be?"

We hope you will continue to join us at the hearings as our committee discusses some very important issues in advance of the United States-Soviet summit.

A complete schedule of the issues to be discussed, including the dates and times, is available next door. Copies of prepared statements and materials are also available next door.

The first speaker on our next panel is Dr. Robert Wellington Campbell of Indiana University.

Dr. Campbell is a professor of economics and has held the chairmanship of the department. He is also director of the Russian and East European Institute.

Dr. Campbell received his Ph.D. from Harvard in economics in 1956 and has taught at the University of Southern California at Berkeley; he is tenured at Indiana University.

Dr. Campbell has received a variety of fellowships from distinguished institutions, including the Ford Foundation, Resources for the Future, the American Council for Learned Societies, and NASA. Most recently, he was a fellow in Advanced Russian Studies at the Kennan Institute at the Smithsonian Institution.

Dr. Campbell has done field research in Eastern Europe and in the Soviet Union. He has served as a consultant to Stanford Research Institute, Battelle Memorial Institute, ACDA, the Department of State, the National Science Foundation, the Office of Technology Assessment, and Rand.

He has testified numerous times before the Senate and House on East-West trade, strategic arms, technology transfer and Soviet economics.

We are pleased to welcome Dr. Campbell as the first witness in our panel.

STATEMENT OF ROBERT W. CAMPBELL, PROFESSOR, DEPARTMENT OF ECONOMICS, INDIANA UNIVERSITY, AND FELLOW, RUSSIAN RESEARCH INSTITUTE

Mr. CAMPBELL. Thank you very much.

It is a pleasure to be asked to contribute to these hearings on what is obviously a very important topic. One of the "critical imperatives" for the Gorbachev regime is to deal with the condition of economic strigency inherited from his predecessors. I would like to describe that situation briefly, and then concentrate on the fundamental dilemma it poses.

For the last 10 years or so, the leadership has been struggling with a "resource crunch" that consists of a disparity between the slow growth of the output of the economy and pressing demands to increase the amounts of output being directed to each major end uses to which the total national output is put, that is, defense, consumption and investment.

THREE SOVIET END USES: DEFENSE, CONSUMPTION, AND INVESTMENT

There has been a secular slowdown in growth over the last three decades, and the growth performance recently experienced and projected by most experts—about 2 percent increase in GNP per year

through the 1980's—doesn't provide for the growth of these end uses in a way that will satisfy the expectations built up in the past, or the objectives of the leaders. With U.S. defense spending growing at about 9 percent per year, the military certainly wants more, and more modern, weapons. There is also an acute need to expand and renovate the economy's stock of productive facilities. Moveover, if something is to be done about the performance of the economy, it is necessary to restore worker morale and incentives; which will require supplying more, better, and more varied consumer goods to the population. It is not possible to meet all those needs at levels that satisfy expectations when output is growing at only 2 percent per year.

At the top of the Gorbachev domestic agenda, therefore, must be the search for a way to increase output growth, or to restrain demands for more spending in each of these areas. If the latter, he must make difficult choices in setting priorities for the allocation of what increment there is among these pressing claims. In contemplating this four-way menu of options, the choice between defense and investment is central. More investment, and improved technology embodied in the investment is crucial to better performance, but that demand competes in a very direct way with hardware for the military establishment. This is especially significant when one considers that these two uses absorb a considerably larger share of the total GNP than in most economies; the guns versus investment goods tradeoff in the Soviet Union is on a saliency greater than in most other societies. Major components of both come out of the machinery sector, and call on the same kinds of resources and productive facilities. Given that one of the most important requirements is that the new, more productive investment goods embody a higher level of technology, both also call on the resources of quality assurance, a capacity for research and development, and innovative managerial talent that have heretofore been preferentially allocated to weapons development and production. It is sometimes held that military goods come out of a separate, walled off, sector of the economy that can only produce military goods. However, as we learn more about this relationship, there are more and more indications that these resources are transferable, and, of course, they would be made more so.

It is not completely clear how Brezhnev toward the end of his regime, and the successor administrations of Andropov and Chernenko, dealt with this dilemma. It is clear that they were all unable to find a way to improve economic growth. And, they were sufficiently worried about consumption to keep it growing slowly at about the rate of GNP as a whole. However, there is still some uncertainty and dispute as to how they handled the priority balancing act between the investment and defense end uses. In the early stages of the period, that is, in the 10th 5-year plan—1976-80—it was explicitly said that the rate of growth of investment relative to GNP would be decreased. And, in the 11th 5-year plan—1981-85—after some arguments, the official targets indicated that investment would not grow at all, but stay essentially flat during the period. These policy pronouncements were generally interpreted by western observers as an indication that the leaders intended to

keep military allocations growing faster than the average for all end-uses.

CHANGES IN THE ALLOCATION OF SOVIET PRIORITIES

However, somewhere in the course of the 1975–85 decade there appears to have been a change in allocation priorities, not publicly discussed, but obvious in the ex post behavior of the economy. It seems that for at least part of this time, the planners accelerated the growth of investment, and held down the growth of military spending. The CIA's estimates of the growth of military expenditure suggest that after about 1976 procurement of military hardware continued at a high rate, but without growing further—though total defense expenditures continued to expand at about 2 percent per year. Despite the plans for an investment slowdown which the planners had announced, investment, at least as reported in the official statistics, grew rapidly. Unfortunately for them, this reallocation compared to the original plan did not turn out to be particularly effective in restoring growth.

Whatever the vagaries of that choice may have been over the last decade—and it may be a while before we can really be certain what happened—the central dilemma remains for Gorbachev. He must decide the relative priorities he wants built into the 12th 5-year plan, 1986–90. The most interesting thing about the current situation is that this tradeoff is currently becoming a more acute than ever.

GORBACHEV'S STRATEGY IN HANDLING THE DILEMMA

Gorbachev has enunciated very clearly what his strategy for dealing with the economic growth problem is to be, and the Soviet economic press is explaining and amplifying it in everything now written. His analysis is that the slow growth of the economy is due to the failure of productivity to grow, which in turn is caused by the burden of outmoded and wasteful technologies embodied in the capital stock the Soviet economy has accumulated. The route to raising the growth rate is to renovate the capital stock, enabling it to be more productive both in the sense of producing more, better, and more varied outputs, and in the sense of saving on inputs—energy, labor, and materials. Most western economists would probably concur in this analysis and agree that the capital stock must be refurbished, though they would place more emphasis on the necessity of dealing with some systemic weaknesses such as incentives and motivations for innovation as well.

A central feature in this strategy is to raise the share of investment that goes to replacing existing equipment, while reducing the share of investment that goes into big new "greenfield projects"—new factories built from scratch. This will change the composition of investment, putting greater emphasis on machinery, less on construction. So, there is a big leverage mechanism at work here. A structural shift towards machinery will mean that the total demand for machinery for investment will grow much faster than investment itself. Moreover, this strategy implies that the technical level of the machinery must rise. This will exacerbate the conflict with hardware procurement, both in terms of quantity and quality.

From the side of military demand, the sustained buildup by the United States must be leading to great restiveness among the military. If it is true that the flow of procurement has remained stagnant since about 1976, and they were told that this had to be so that other problems could be taken care of, they must be thinking that it is now their turn. To see how the situation must look to them, consider what has happened to relative spending. The most recent public statement by the CIA as to relative spending was that the Soviet figure was half again as big as ours in 1980, and if one then calculates growth at the respective rates—about 9 percent in the United States, 2 percent in Soviet Union—the United States will catch up somewhere in the current quinquennium.

The question is whether both these needs can be satisfied. That is what the Soviets will try to figure out as they make the 12th 5-year plan. That the heart of the problem is in the machinery sector is self-evident, and one of the current themes reflected in the Soviet press is a campaign in which every machine-building plant in the country has been set the task of figuring out how it can accept more ambitious targets than it has had in the past. Each issue of the newspaper brings a story in which some machinery plant is studying the "control figures" that Gosplan has passed down to see how they can meet or beat them.

Until more information about the targets being contemplated for the 12th 5-year plan is released, we can't discuss the feasibility of doing both in any very concrete way. However, a few hints have been released that permit one to make some illustrative calculations suggesting that "it ain't going to be easy." As indicated, Gorbachev has said that the share of reequipment must rise from about a third to over half. I have worked out in the tabulation below what this would mean, assuming that investment continues to grow at something like the current rate of 4 percent per year. This is not exactly the same thing as the demand for machinery, but it ought to be a good approximation. As the table shows, the increase in such investment would amount to 84 percent over the comparable volume in 1981–85.

SELECTED DATA ON INVESTMENT

[Billion rubles]

Year	All state investment	Of which investment in productive sector	Share of col. (3) for reequipping and reconstruction
(1)	(2)	(3)	(4)
1981	122.7	68.7	22.6
1982	127.0	70.4	24.1
1983	133.8	74.6	26.0
1984	146.0	[81.8]	[28.6]
1985	154.0	[86.2]	[30.2]
1981–85		381.7	131.5
1986–90		[1] 482.7	238.6

[1] Assuming that this category of investment grows at 4 percent per year. All data from standard statistical handbooks or speeches on budgets and plans, except that those in brackets are figured on basis of share in earlier years.

As to how the machinebuilding sector will meet those needs, Gorbachev has said that it will be necessary to raise its rate of growth

to 1.5 to 2 times over what it was currently. If we cumulate a series for machinery output in which 1981 is taken as 100 and the growth rate is that so far recorded in the 11th 5-year plan, that is, 6 percent, the cumulative total for 1981–85 is 563. If the rate of growth is raised to 9 percent in the 12th 5-year plan, the cumulative total for that period will be 823 or only 46 percent more than is available in the 11th. If the growth rate doubled, then the cumulative total for the 12th 5-year plan period is 60 percent bigger than for the 11th. Compared to the figure of 84 percent for the increase in the need for machinery, these figures suggest that all the increment will be to go for reequipping, even if machinery output is greatly accelerated.

SOVIET MILITARY DEMAND CANNOT BE MET

It should be added that as a strategy for raising GNP growth, this is an intermediate-term rather than a short-term strategy. It cannot relieve the resource crunch from the GNP supply side for some time. There is also a chicken and egg aspect to this approach, since such a strategy requires first modernizing the machinery sector itself, making large investments for both renovation and expansion, and that will take some time. I can understand the Gosplan's dismay in being told to draw up a plan that will accomplish all this.

These illustrative calculations suggest that there is not going to be enough output from the machinery sector to support both investment and hardware procurement for the military, and one wonders how the Gorbachev regime will deal with the military demand.

So far, we have very little hint of what line Gorbachev is going to take on military expenditures. He takes a very hard position in blaming the United States for the arms race, and certainly nothing much has happened in Geneva since his elevation to the post of Secretary that would to lead one to expect progress in an agreement that would ease military spending. As to what he intends to do about military spending, Gorbachev is remarkedly reticent. His most emphatic statement is it that what has been won in the recent past is a military-strategic equilibrium, and that it is necessary to maintain parity by all possible means. The issue of the military budget is usually discussed by Soviet leaders in terms of a formula about what the party does, or has done, or will do, for the armed forces. Gorbachev employs a version of that formula that is very neutral in tone: "we shall continue to spare no effort that the Armed Forces of the U.S.S.R. have everything necessary for reliable defense of our fatherland and its allies, and that no one can take us unawares." "Continue" implies that what has been done recently is about right, and "no one can take us unawares" is a code that aligns him with a strain of thought that discounts the possibility to a U.S. first strike. Moreover his remarks occur in a context where he says that detente is not dead, that there are strong forces that can help the Soviet state to forestall the Americans, and to emphasize that this is official policy he adds that these views have been discussed in the Politburo.

What all this means about Soviet willingness to engage in arms control or other resource saving shifts goes beyond my capacity to assess. However, it certainly suggests a strong incentive to look for foreign policy actions he can take as substitutes for a renewed acceleration in the militay buildup. Can he ease the burden in the conflict with China? Can he introduce some mobility in Soviet-Japanese relations that will keep the Americans off balance? Can he introduce enough suspicion in United States-Western European relations to weaken the strength of his opponents on that front? I gather that these are issues your hearings will address in some detail, and I hope that this description of the economic situation will be helpful in focussing your examination of them. Thank you.

Senator PRESSLER. Thank you very much.

Our second speaker in our panel is the general counsel of the Joint Economic Committee of the U.S. Congress, Richard F. Kaufman.

Mr. Kaufman received his B.A. from the University of Texas and his law degree from the University of Texas Law School in 1962. He has participated in Aspin Institute projects on Europe, the Atlantic Council's project on arms control and East-West relations, the U.N. Association's project on conventional arms control, and has taught at George Washington University and Cornell University.

Mr. Kaufman's publications include articles in a variety of scholarly journals, such as "Soviet Economy "and in edited volumes. His books include, "Soviet Defense Spending," "The Strategic Dimensions of Trade," "Soviet Defense Trends," and "Western Perceptions of Soviet Economic Trends."

We welcome you and look forward to your testimony.

STATEMENT OF RICHARD F. KAUFMAN, GENERAL COUNSEL, JOINT ECONOMIC COMMITTEE, U.S. CONGRESS

Mr. KAUFMAN.[1] Thank you very much.

I have been asked to discuss the critical factors that will be driving the Soviets to adjust strategy and policy by the 1990's.

My statement will deal with the Soviet economy and the defense sector. Developments in these areas are obviously factors that influence Soviet strategy and foreign policy. In our own system, defense is often seen as an instrumentality of foreign policy. The Soviet leadership doubtlessly views their defense program in a similar way. Some would argue that, for the Soviets, military force is not the most important in foreign policy, it is the only element. Likewise, a healthy, growing economy is viewed as the underpin-

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[1] Mr. Kaufman is general counsel, Joint Economic Committee. The views expressed are those of the author and not necessarily those of the Joint Economic Committee. Mr. Kaufman received his B.A. from the University of Texas and his law degree from the University of Texas Law School in 1962. He has participated in Aspin Institute projects on Europe, the Atlantic Council's project on arms control and East-West relations, the U.N. Association's project on conventional arms control, and has taught at George Washington University and Cornell University.

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ning of our defense program. The Soviet leadership has expressed a similar view. Regardless of their beliefs, it is self-evident that a weak economy cannot indefinitely support a strong defense.

One question I would like to address is how to regard the performance of the Soviet economy from a Western perspective. Another question is whether the observed weaknesses in the Soviet economy have influenced the defense program, or are likely to influence it in the foreseeable future. For example, have problems in the overall economy affected the defense industrial base and defense production? Finally, I will comment briefly on the problem of understanding Soviet policy decisions and the linkages between domestic economic developments and foreign policy.

A cautionary remark is in order. The committee is properly concerned about future events, including the prospects for the Soviet economy. However, predicting future economic performance is risky business. Every economy has its ups and downs and is filled with surprises, as American economists have learned often to their embarrassment over the past several years. The fact that the Soviets have a centrally planned economy means that bureaucrats and politicians try to run it, not that they can preordain trends. Intelligence experts have also been unable to accurately predict future Soviet defense spending. Official U.S. estimates have been revised from time to time, most recently in 1983, when the estimated growth rate was cut in half, negating 6 or 7 years of forecasts. Official or private predictions about Soviet economic or defense spending trends should be regarded with considerable skepticism.

THE SOVIET ECONOMY

There is a tendency in the United States to dwell on Soviet economic problems and to see the economy at the brink of a crisis or heading steadily downhill. This is an interesting reversal of the 1950's, after the launching of Sputnik, when it was feared that the Soviets would soon overtake the United States. Perhaps we are more realistic today, but it would be better to neither overestimate nor underestimate the economic strength of our chief potential adversary.

An objective review indicates that the Soviet economy has done well by most measures since World War II. Table 1 shows the average annual growth rates from 1951 through 1980. Table 2 shows the growth of per capita consumption for the same period. While our estimates show slower growth than the official Soviet figures, the growth rates are quite respectable and comparable with trends in the West.

TABLE 1.—*Average annual rates of GNP growth*

5-year period:	*Percent*
1951–55	5.5
1956–60	5.9
1961–65	5.0
1966–70	5.2
1971–75	3.7
1976–80	2.7

Source: Joint Economic Committee, *U.S.S.R.: Measures of Economic Growth and Development, 1950–80* (Washington: U.S. Government Printing Office, 1982), p. 15.

TABLE 2.—*Average annual growth rates, per capita consumption*

5-year period:	*Percent*
1951–55	4.5
1956–60	4.0
1961–65	2.4
1966–70	5.1
1971–75	2.9
1976–80	2.2
1951–80	3.5

Source: Joint Economic Committee, *U.S.S.R.: Measures of Economic Growth and Development, 1950–80* (Washington: U.S. Government Printing Office, 1982), table 6, p. 335.

There has been a steady slowing of growth since the rapid growth of the immediate postwar period. The slow growth in the 1970's caused great concern in Moscow and there have been numerous efforts to stimulate better preformance. These were not notably successful and, when the growth rate averaged about 1 percent in 1979–80, some Western analysts imagined the worst. Projections of a future slowdown in growth were combined with continued growth in defense and stagnation in per capita consumption, to suggest the possibility of popular unrest and political instability.

Such predictions have so far proved incorrect. Soviet growth improved modestly after 1980 and reached the 2–3-percent range in 1982–84. Growth so far this year seems to be in the same range. These rates are not spectacular and they are probably not sufficient to make any gains on the West. Neither do they signal crisis and instability. It is true, as many analysts, maintain that the Soviets face serious tradeoff decisions between civilian spending and defense. However, a similar statement can be made about the United States.

SOVIET GROWTH RATES COMPORED TO UNITED STATES PERFORMANCE

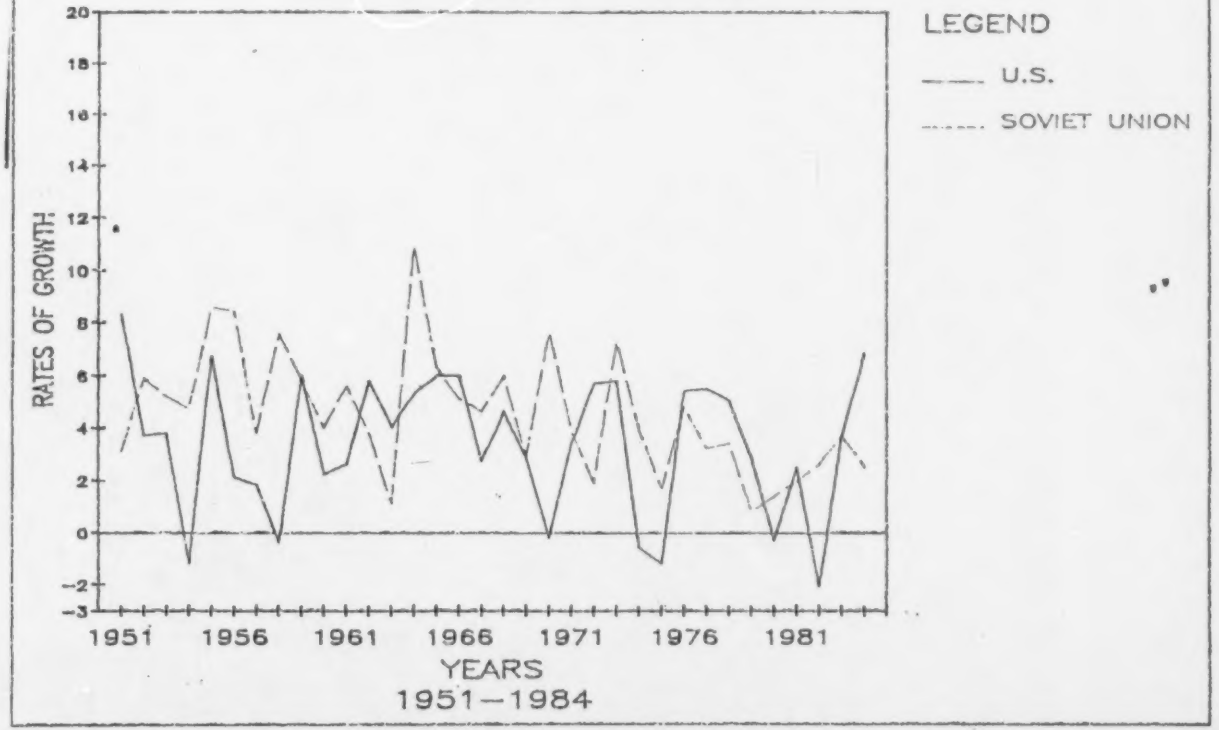
Soviet and United States GNP growth rates have averaged about the same since 1970, and have not been strikingly dissimilar since 1950. Figure 1 shows this comparison in the form of a line chart. It will be seen that, for much of the period, growth rates followed the same general path although there have been wider short-term swings in the United States. A regression analysis shows a declining trend in growth rates in both countries, but a more pronounced decline in the U.S.S.R.

That is not to say that the Soviet Union is as well off as the United States. It is not. It has a lower standard of living and more difficult problems to deal with than we do.

[The chart referred to follows:]

FIGURE 1

U.S.–SOVIET GNP RATES OF GROWTH 1951–1984



In December 1982, the CIA estimated, in an assessment of the strengths and weaknesses of the Soviet economy, that GNP growth for 1982 would be about 1.5 percent, and that growth would average 1 to 2 percent for the foreseeable future. Although those projections were too low, the CIA assessment injected a healthy dose of realism into the discussion. It pointed out that the Soviet slowdown closely paralleled the slowdown in the OECD countries which averaged 1.2 percent growth in 1980–81—not to speak of the United States recession of that period—and that there was no danger of a Soviet collapse.

Soviet economic growth is hampered by inefficiencies in its system of central planning, demographic and geographic trends that are increasing the costs of production, a heavy military burden, and, many would argue, the cost of maintaining its allies in East Europe, Cuba, and elsewhere. Shortcomings in agriculture are a prime example of Soviet systemic problems. There is significant consumer dissatisfaction with the supply and quality of goods. Housing shortages are severe by Western standards, as are the problems of alcoholism and health.

On the other side of the ledger are a number of offsetting facts. The Soviet Union is a a very large economy, somewhat more than one-half the size of the United States, with per capita GNP of about $6,000, a large population, a large, educated, and well-trained labor force, and a huge accumulation of capital assets. It is more self-sufficient in terms of natural resources than most other industrialized countries, abundantly stocked with energy sources and other raw materials, including iron ore, rare metals, minerals, and forest products. It is self-sufficient regarding food, contrary to some Western assertions that it imports food because it cannot feed its own people. Agricultural imports consist mainly of feed grains intended to increase the production of meat. According to the CIA, the ability of the Soviet economy to remain viable in the absence of imports is much greater than most, and possibly all, other industrialized countries.

In addition, the Soviet Union possesses what I would term technological adequacy. It is true that it lags behind the United States and the West in many respects. These lags may be inconvenient and embarrassing, but they are not fatal. Often overlooked is the fact that Soviet technology equals and even surpasses the West in some areas. Indeed, there is a considerable reverse technology transfer wherein Soviet and East European innovations are being sold to the West. The stepped up efforts by the Soviets to obtain Western technology, legitimately and illegitimately, may be more an attempt to save the short-term costs of research and development than a desperate effort to keep up.

DEFENSE

Just as Western experts tend to neglect Soviet economic strengths, so do they often ignore the limitations of the defense sector. The downward revision of Soviet defense spending has already been alluded to. Table 3 shows the average growth rates since 1951 in constant (1970) rubles. The most significant aspect of the revision is not only that the total growth rate was cut in half,

from 4 percent to 2 percent, but that the growth rate of procurement was revised down to zero. Of course, this does not mean that nothing was spent, only that procurement expenditures were about level from 1977 through at least 1982.

TABLE 3.—*Average annual growth rates of Soviet defense expenditures*

5-year period:	*Percent*
1952–55	3.6
1956–60	−2.1
1961–65	7.6
1966–70	4.5
1971–75	4.0
1976–82	2.0

Source: Joint Economic Committee, *U.S.S.R.: Measures of Economic Growth and Development, 1950–80* (Washington: U.S. Government Printing Office, 1982), table C–4, p. 123; Peter Munkholt, "The Soviet Economy: Protection of the Military Sector in Case of a Protracted Deterioration," The International Institute for Strategic Studies (London, 1983.)

There are various ways to explain this slowdown. The CIA identifies three contributing factors: economic constraints, technical problems, and policy decisions. The defense slowdown corresponds roughly to the economic slowdown, and it is believed that industrial bottlenecks slowed deliveries to defense firms. By technical problems is meant the difficulty of adopting new military technology to production. Finally, the Soviets may have made a deliberate decision to slow the overall rate of defense spending in part to relieve pressures on the economy, in part to comply with SALT I. My own analysis suggests that a decision was made to shift the composition of procurement by slowing offensive strategic weapons while maintaining growth of conventional weapons. The difficulty is that neither the CIA nor any other Western source can know with confidence why the Soviet leadership decided to slow defense or change the mix of weapons procurement, or if there was a deliberate decision as opposed to economic and technical forces beyond the leadership's control.

There are, however, important implications in the slowdown for the relationship of the defense sector to the rest of the economy. If the CIA is correct, Moscow was unwilling or unable to insulate the defense industries from the spillover effects of industrial bottlenecks and technical problems. This episode, sustained over at least 6 or 7 years, is further evidence that the dual economy thesis needs to be revised. Under this thesis, it has been believed that in the Soviet Union a relatively inefficient civilian industry coexists alongside a modern defense industry which benefits from preferential treatment regarding capital, labor, and services, and is protected from the problems experienced on the civilian side. Although the high degree of secrecy that surrounds Soviet defense makes it impossible to know all the facts, it now appears that the defense industries may be more closely integrated with the rest of the economy than has previously been understood.

CONCLUSIONS

The growth of the Soviet economy has slowed considerably. After declining to about 1 percent in 1979–80, there was a modest resurgence. Soviet GNP growth has averaged about 2.5 percent during the past 4 years. It is not clear whether performance will be better

or worse under the Gorbachev regime. What is clear is that the economy is not in a state of near crisis. There is no convincing evidence that sectors such as mining, energy, transportation, industrial production, and agriculture are deteriorating, although they all face problems. The Soviet economy, because of its size, resources, and technology, is highly self-sufficient. United States policymakers need to guard against assessments of Soviet economic prospects that are unduly pessimistic.

The slowdown in Soviet defense spending since 1976 is an established fact, according to the CIA and the DIA. Whether an upturn has begun in the past year or so remains to be seen. The protracted slowdown itself raises new questions about the way the Soviet economy works. For years, it was argued that the high priority given by the Soviets to military strength was implicit in the continuing rise in defense spending, and that the special status of the defense industries was indicated by the steady growth of procurement in the face of serious economic difficulties. These judgments must now be revised.

More importantly, the slowdown demonstrates how much uncertainty there is in the West about Soviet decisionmaking. Even when we know that the trend of defense spending or the composition of procurement has changed, we can only speculate about the reasons and whether they are related to domestic or international factors.

The current defense program does not seem to be placing unusual strains on the economy, nor would an enlarged program. It is possible that reduced growth in defense spending contributed to the recent improvement in Soviet economic performance. Still, as our own experience shows, a substantial buildup does not necessarily cause short-term macroeconomic problems.

One would need much more information than is currently available to relate changes in economic growth or defense spending to foreign policy. No one can accurately predict the state of the Soviet economy or the defense sector in the 1990's.

Senator PRESSLER. Thank you.

Our third panelist this morning is Mr. Bruce Parrott.

Mr. Parrott received his Ph.D. from Columbia University in 1976. He is currently associate professor and director of Soviet Studies at the Johns Hopkins School of Advanced International Studies in Washington.

Mr. Parrott has held NDEA fellowships in Russian Studies, Danforth and Rockefeller Foundation fellowships, and has served as an associate member of St. Antony's College at Oxford.

Mr. Parrott is a frequent contributor to distinguished journals in the field, including "Problems of Communism."

He has travelled in the Eastern bloc and his research and writing have been devoted to politics and economics in the U.S.S.R., technological progress, Soviet policy toward the United States, Soviet research and development and trade issues.

We welcome Mr. Parrott as our last panelist.

STATEMENT OF BRUCE PARROTT, DIRECTOR OF SOVIET STUDIES, JOHNS HOPKINS SCHOOL OF ADVANCED INTERNATIONAL STUDIES

Mr. PARROTT. Thank you very much, Senator Pressler. I am very pleased to be here.

Robert Campbell and Richard Kaufman have talked about the recent trends in the Soviet economy and in the Soviet defense effort.

I am not an economist or a specialist on Soviet military weaponry. I am a political scientist, and I would like to talk about Soviet views of these economic and defense trends.

My first point is that the tradeoffs between——

Senator PRESSLER. Would you pull that microphone a little bit closer so that we can hear you a little better, please?

Mr. PARROTT. My first point is that the tradeoffs between investment and military procurement and between defense and consumption are already a pressing matter politically for the Soviet leadership. They are not simply a future problem on the horizon.

SOVIET MILITARY-CIVILIAN RESOURCE TRADEOFFS TO BE ANNOUNCED AT THE 27TH PARTY CONGRESS IN EARLY 1986

The current Soviet leadership faces very difficult choices in handling these tradeoffs, and many of these choices will have to be made in formulating the 12th 5-year plan for the years 1986 to 1990. That plan will be confirmed, or the guidelines for the plan will be confirmed, at the 27th-Party Congress in early 1986.

A second point is that the Soviet leaders and many Soviet officials do not agree on the relative priority to be accorded to investment, consumption, and defense. Since about 1980, a vigorous debate over these issues has developed in the Soviet press, and it has focused especially on the level of Soviet defense spending.

This recent debate contrasts sharply with most of the Brezhnev period, when the political elite, civilian as well as military, showed a relatively high degree of consensus over defense and other budgetary priorities. To find a debate of comparable intensity over military expenditures in the Soviet Union, one has to go back to the Khrushchev years, to the mid-1950's and early 1960's.

The main issue in the current debate over defense has been whether or not to speed up the growth of Soviet military spending. There is little evidence that anyone has argued that there should be a cut in Soviet military spending in absolute terms. I think this is a very important point.

High military officers, led by Marshall Nikolai Ogarkov, have pushed hard for larger military budgets. I think it is a reasonable assumption that these officers, who are alarmed about what they perceive as a very serious American military threat, have enjoyed some high-level support within the civilian party leadership. Otherwise, their political challenge could not have been as sustained and overt as it has been.

However, the dominant element of the civilian leadership has resisted these pressures, apparently successfully. The CIA's statistics on defense spending, at least through 1983, suggest that there has been no surge in Soviet spending of the kind the military leader-

ship desires. I don't think that the published data on 1984 are yet available or at least conclusive.

The party leadership has resisted this pressure from the defense lobby despite the simultaneous occurrence of a multistage process of leadership succession. This is especially significant because, in the past, the defense lobby has enjoyed heightened influence during periods of succession. In the 1970's, Western observers, among whom I must include myself, expected that when the succession process started. the military and its party allies would have much more clout in the allocations debates than during periods of stable party leadership. Thus far, that appears not to have been the case.

SOVIET CIVILIAN LEADERS RESIST A MORE RAPID GROWTH IN DEFENSE SPENDING

The civilian leaders in the party have resisted pressures for the more rapid growth of defense spending, for several reasons. In the first place, some of these leaders believe that the Western military programs currently in progess are not so great a threat as the military leaders suggest—or at least not so great a threat in the short term. Here the importance of the time horizon must be emphasized. Part of the debate concerns whether the challenge from the West and the United States, in particular, is a near-term or a long-term problem. Civilian officials, party leaders, and diplomats believe that there is time to undercut Western military programs by diplomatic and political maneuvers, rather than by undertaking a massive Soviet counterbuildup. In addition, some of the civilian leaders see the need for general economic growth and consumer satisfaction as more pressing matters than do the champions of a jump in defense spending.

These debates are probably not mere repetitions of past Soviet disputes over military spending. One could make a case that this is merely a periodic phenomenon in Soviet politics, and cite past instances in which the Soviet leaders have argued about how much to spend on defense. One could even look to the Stalin period to find debates over investment in heavy industry as a whole versus investment in the weapons-producing sectors of heavy industry. Certainly one could find debates in the Khrushchev period over defense spending versus spending on consumer needs.

I think, however, that nondefense needs seem more pressing to the current leadership than they did under Stalin and Khrushchev. First, although there were investment-defense tradeoffs under Stalin, the economy was growing at quite a high rate while he was dictator of the Soviet Union, and this probably made the sacrifice of some economic growth less painful. If the economy grows at 7, 8, or 9 percent per year, a decline of 1 or 2 percent in that rate is probably more tolerable than if the economy grows at 2 or 3 percent a year.

Moreover, under Stalin, as under Khrushchev, the economy was growing faster than the economies of the developed West, and there was a reassuring belief that in the long term, or even in the short term in Khrushchev's case, the Soviet Union would overtake

and surpass the Western economies in per capita output and level of technological sophistication.

THE SOVIET UNION IS FEARFUL THAT IT WILL FALL FURTHER BEHIND

This idea is no longer credible in the Soviet Union. The Soviet leadership is fearful that the Soviet Union will not simply fail to overtake the West but may well fall further behind in the international economic and technological competition, particularly with the United States.

A second major reason that the needs of nondefense activities seem more important today than in the past is that consumption is no longer a residual category, as it was under Stalin, when the consumer was mercilessly exploited for the sake of rapid expansion of defense and heavy industry. Nor is improved consumer well-being merely a positive goal, as it was under Khrushchev. Khrushchev was enthusiastic about the idea of realizing the goal of material plenty, as promised by the idea of full communism. He believed that it was important to improve the lot of the Soviet consumer rapidly.

However, today, steady growth of consumption is not just a desirable goal; in the minds of some Soviet leaders, it is a political necessity. There are or have been officials within the leadership who feel that steady growth of consumption is a prerequisite for the political stability of the system. Some members of the leadership were deeply shaken by the Polish crisis which exploded in 1980, and they feared that this crisis might be duplicated in the Soviet Union if the regime did not follow wise policies.

Konstantin Chernenko was the top leader who voiced this apprehension more clearly. However, a whole debate developed in the scholarly literature about the nature of crises under socialism and whether they are caused basically by domestic problems or by the meddling of foreign imperialists. An important school of Soviet social scientists argued that the basic causes of these crises were domestic and that they resulted from a growing rift between the party and the populace. Officials and social scientists of this bent have felt that the regime must maintain its support within the general population, and that one essential way of doing that is to steadily increase consumption.

GROWTH AND CONSUMPTION ARE GRADUALLY BECOMING PART OF SOVIET NATIONAL SECURITY CONSENSUS

To sum up this point, growth and consumption appear to be gradually becoming part of the leadership's national security calculus, in a way that these goals appear not to have been part of the national security calculus under earlier leaders. I believe that this conclusion is supported by the evidence of a vigorous Soviet debate in the 1980's over the relative importance of the various constituents of Soviet national power. The striking thing about this debate is that some of the participants have expressed the view that economic growth is a more important constituent of Soviet national power than are the military forces. This argument has been made vigorously by party propaganda organs, and directed at the officer corps; it has not fallen on very receptive ears.

Finally, I would like to highlight what I think are two tempting but erroneous conclusions that we should avoid.

The first is that the Soviets face virtually no domestic constraints on the pace of their military buildup. The political evidence of the 1980's indicates that they do face very serious constraints, and a plausible case can be made that these constraints are becoming more and more difficult for the Soviet leadership to cope with.

A second notion we should avoid is that these constraints are so overwhelming that the Soviets would be unable to accelerate their military programs under any circumstance. In my opinion, if the Soviets perceive grave threats from the outside world, they will choose to increase the growth of their military effort, and they will probably be able to sustain the domestic sacrifices needed in order to do so.

In short, the domestic economic and political constraints that the Soviets face do offer some new opportunities to American diplomacy, but these opportunities should be used carefully and we should beware the temptation to overplay our hand.

Thank you.

Senator PRESSLER. Thank you very much for the excellent testimony.

I shall address these questions to you individually, but if any of you has a compelling thought on a question and wishes to also respond, you may do so. You may also respond in writing.

Mr. Campbell, I would like to ask you for an assessment. A study of Soviet trade suggests that it enables the U.S.S.R. to import technology, grain, and basic materials as well as intermediate goods that otherwise would be seriously deficient. Are we, thus, subsidizing Soviet growth at our own expense? Or, will the Soviets' deteriorating hard currency position begin to impede the acquisition of Western technology, machinery, and equipment, and will this require a shift in Soviet domestic economic priorities?

Mr. CAMPBELL. Well, an economist always answers this question about trade by pointing out that there is gain from this trade. That is quite clear. That does not necessarily mean that it is at our expense directly, because we simultaneously gain from it. Our losses may be of a longer run nature, of a political nature, and so forth.

I think there can be a case made that, as the Soviet economy thrives, it in some sense disadvantages us in ways that offset the gains that we ourselves achieve from the trade. However, I think that that issue has been exaggerated. The contribution of technological transfer to improved performance of the economy, saved resources, and increased military potential, is, indeed, a fact, but I think it has perhaps been overplayed as an issue.

Senator PRESSLER. Thank you.

Mr. Parrott, over the past 5 years, the Reagan administration has intensified America's military investments.

In terms of their own budget allocations, how have the Soviets reacted?

Mr. PARROTT. I am not sure that I am the best member of the panel to answer that question. Perhaps Richard Kaufman is more up to date on the available information?

My impression is that the Soviets have made, at best, marginal increases in the rate of defense growth. The question of how to respond to the Reagan administration's initiatives has been a central focus of the debate which I mentioned.

On the one hand, some officials have felt that the strategic balance between the two superpowers is basically quite stable, and that it would take a sustained period of military expansion in the United States to shift that balance. Gorbachev, incidentally, came very close to endorsing that view in May 1983, during his visit to Canada.

On the other hand, some military officials, especially Ogarkov, have expressed the view that the Reagan administration's military buildup poses an immediate, very dangerous military threat, and that it would be a serious error, in Ogarkov's words, to fail to respond now to that threat.

So, this has been a point of contention between the dominant part of the party leadership and a large part of the military establishment. So far as I can discern from the open sources, the party leadership has, thus far, prevailed in the debate.

Senator PRESSLER. Mr. Kaufman, do you want to respond to that?

Mr. KAUFMAN. We don't know a lot about Soviet defense decisionmaking, Mr. Chairman. It is somehow, we believe, associated with the 5-year planning process.

Senator PRESSLER. Pull the microphone a little bit closer.

Tell me why it is that we don't know a lot about the Soviet military decisionmaking process.

Mr. KAUFMAN. Well, I think the simple explanation is that it is because of so much Soviet secrecy. They just have a very high wall of secrecy around their military decisionmaking, around much of their economic decisionmaking, for that matter, and it is very difficult for us to penetrate.

The best way that we have to understand changes in Soviet defense programming and activities is simply by observing them. We have a very elaborate intelligence apparatus, which is set up primarily to watch very closely Soviet military activities, to count up, in a very literal sense, Soviet assets and annual changes in increments of Soviet defense weaponry, manpower, and all the rest. We then make calculations about the equivalent costs of these additional resources in terms of weapons production and military activities.

We then engage in some extensive analyses of all of these facts to attempt to define and detail Soviet policy implications and decisions. However, at that point, we get into very uncertain areas, and we engage in a fair degree of speculation.

For example, there is now discussion, as Mr. Parrott mentioned, of a Soviet dialog as to what to do with their current defense budget.

Presumably, there was some sort of Soviet debate in the 1970's, at which point, a decision was made to slow down the rate of growth in defense expenditures. If such a debate did occur, it missed us.

We were unable to detect that dialog or debate. In fact, we did not even know that there had been a slowdown in defense expenditures until the intelligence agencies came out with a major revision

in 1983, which retroactively changed the trend of Soviet defense spending since 1976. The Defense Intelligence Agency now agrees with that revision, in so far as it covers the period for the end of 1976 through about 1982.

Mr. PARROTT. Mr. Chairman, may I make one brief, additional comment?

Senator PRESSLER. Yes.

Mr. PARROTT. I would like to register what I suppose is a partial disagreement with Richard Kaufman.

I agree entirely that if we have to choose a single methodology, the best way to figure out what the Soviets are doing is to count their weapon systems and aggregate them in some way.

I think, though, one reason why we do not know as much about Soviet defense decisionmaking as we should is because we have not studied it carefully enough. There is more available in the public record than most analysts, academic or governmental, appreciate. We have proceeded for a long time on the assumption that this process is entirely under wraps.

It takes very careful, rigorous study over a long period of time to figure out what is going on. However, much evidence is available from the public record. When combined with the evidence from intelligence agencies, it can help us to explain better what the intentions are behind Soviet defense programs.

Mr. KAUFMAN. Mr. Chairman, may I just make one brief comment on that?

I certainly endorse what Bruce Parrott has said about the need for more research and a better analysis of what is on the public record. I know everyone in Congress and throughout the Government would welcome some better understanding of Soviet decisionmaking through this kind of process.

I do want to comment in this discussion about an exchange that you had with Dr. Brzezinski earlier, with respect to the apparent upturn in Soviet R&D spending.

Soviet military R&D is the most difficult of all sectors of the defense budget for the intelligence community to measure. This is because you can count additions of missiles, tanks, and other hardware, and you can observe activities with respect to exercises and manpower and quantify the results of those observations, but you cannot understand what goes on under the rooftops of factories and in research facilities, where there is no way of making direct observations.

This is where most of Soviet R&D takes place, and it is one reason why it has been so difficult for us to measure in any confident way what the level of Soviet R&D spending is.

At this point, I would say that we only have, at best, educated guesses about the R&D component of the Soviet defense budget.

Senator PRESSLER. I will direct this next question first to Mr. Campbell and then to anyone who wants to respond. It is tied in with our earlier discussion of the Soviet will or character. What makes the Soviets so willing to spend so much on R&D and military acquisition?

A related issue deals with social priorities. With an aging population, high infant mortality, and a decreased lifespan for Russian males, the Soviet Union confronts a serious labor shortage. What

steps are the Soviets taking to alleviate these problems? Moreover, the Soviets face a serious leadership problem. Russians now account for less than 50 percent of the Soviet population, and the percentage continues to decline. Given the historic dominance of Russians in the Soviet leadership, what are the implications of this demographic change?

Mr. CAMPBELL. Well, first of all, the economic implications are quite obvious. There is a very important explanation for the slowdown in growth and the difficulties they face ahead. Because of this change in ethnic composition, because of language difficulties, because these people come from or live in less industrially developed areas, they are not as good a raw material for expanding the labor force.

The Russians can ameliorate the situtation by instituting a highly varied menu of improved language instruction, and change their political policy toward these people. So, it is not necessarily a disaster on the horizon, but it does pose problems.

I am not myself an expert on this, but obviously, the problems for the military forces are very great. The changing ethnic composition of the population makes more difficult the task of first recruiting and training for a modern army, and then insuring the loyalty of people who are not themselves part of the mainstream ethnic body of the Soviet Union.

Senator PRESSLER. What is the reason for the decreased lifespan of Russian males?

Mr. CAMPBELL. Well, this is one of those puzzles again, but much of it has to do with a maturing society, in some ways. Part of it is simply demographic changes in age structure. However, alcoholism is a factor, too. There are a number of industrially related morbidity factors that begin to appear. I don't think anybody has a complete explanation for it yet.

Senator PRESSLER. The development of Siberia is generally viewed as crucial to Soviet economic revitalization. Is such development possible without the active participation of the United States, Western Europe and Japan? What are the implications of Siberian development for Soviet foreign policy?

Mr. CAMPBELL. Well, I have one comment on this. It is a very big question, but here is a small answer.

I think one thing we have not yet appreciated is that the new Gorbachev strategy is going to also have as an implication a changing regional emphasis.

There has been a continual debate between the European emphasis and the Siberian emphasis in Soviet development planning.

One reason investment has not gone as far as expected in creating new output in the past is because a lot of it has been diverted to these areas where infrastructure is weak, where capital and output ratios are very high, and so forth. In order to carry out the new Gorbachev strategy, the Soviets will not be able to continue to divert such investment funds anymore. Investment will have to be much more focused on existing, developed areas.

This, I think, has many possible implications. One could be an invitation to invite the Japanese in to develop Siberia. The Soviets would need their capital, their technology and their managerial knowledge. Certainly, the Russians have not shown any sign of

doing that at the moment, but that is a possibility.Alternatively, they could see Siberia as less important economically than it has been.

Mr. KAUFMAN. Mr. Chairman, Siberian development has been an unrealized goal of the Soviet leadership for many years.

Not too long ago, there was a real push for doing something in this area. By the way, there is not only Siberia, but there is the Far East region, which is beyond Siberia, the area that borders on the Pacific Ocean.

The Soviets had hoped to involve both the United States and Japan in their development of natural resources, of forest products, of coal and coke reserves, as well as of transportation of liquid natural gas.

All of these projects have not come to fruition. Japan has become very reluctant to involve itself deeply in Siberian developments, for both economic and political reasons.

The relationship between Japan and the Soviet Union is not very good. There is a major dispute over several island territories that the Soviets occupy. There does not seem to be, at this time, much chance that there will be any major change in that relationship, at least to the extent that Japan would become more greatly involved in Siberia and in the Far East development.

Thus, the Soviet Union is probably still decades away from any major breakthroughs in developing these Far Eastern and Siberian areas.

Senator PRESSLER. What are the implications of a projected decline in Soviet oil production? What threat, if any, do you see to Iran's oil fields from an oil-dependent U.S.S.R.? How should the West respond to a Soviet request for assistance in developing existing reserves?

Mr. CAMPBELL. I think the prospects are that Soviet oil output must decline. This is not an issue that I have researched very deeply recently, but I would not be surprised to see a drop of something like 50 million tons in Soviet oil output from the present level of something over 600 million tons in the course of the coming 5-year plan.

Now, that is not so much a threat in terms of total energy supplies, as the Russians have alternatives. They have plenty of oil to meet the liquid fuel needs of the economy if they can restructure the refining industry. That, in turn, however, is one of these renovation, reequipping, technological upgrading tasks in a particular sector that so preoccupies the attention of Gorbachev.

Their prospects for increasing output are primarily offshore and in certain very deep locations in some of the European areas.

Now, most of that kind of oil development is not likely to require technological assistance that the United States uniquely can give. In particular, offshore equipment is available from many other suppliers. So, I think we have relatively little control over that.

However, no matter what we do, the decline in oil production will take place, and it is going to cause some difficult adjustment problems for the Russians.

Senator PRESSLER. In terms of United States-Soviet trade, it has been argued that the West has an overriding preoccupation with exports and only a small interest in imports. By contrast, the Sovi-

ets are overwhelmingly preoccupied with imports. They import about one-tenth of their import needs from the United States, mostly grain and agricultural equipment, but the United States only imports 1 percent from the U.S.S.R. Why do you think these points are rarely registered by policy-makers or used as points of persuasion in the U.S.-U.S.S.R. dialog?

Could the West make better use of its economic contacts with the Soviets to pursue a political advantage?

Mr. CAMPBELL. Well, I'm not sure that I agree with the premises of the question, so I think I should refer that to somebody else, particularly as an aspect of the political dialogue. Perhaps somebody else could deal with it better.

ECONOMIC INTERCHANGE WITH THE SOVIETS AS AN INVESTMENT OF UNITED STATES POLICY

Mr. PARROTT. It seems to me that economic interchange with the Soviet Union can be made an instrument of American policy, but only in the right circumstances. If we are talking about changing Soviet behavior or eliciting favorable behavior, as an instrument it works best when we are asking the Soviets for marginal changes and when our general relationship is a relatively positive one. That is why I think in the early 1970's, the Soviets did reluctantly make concessions on the question of Jewish emigration in response to American pressure. It also may be that they made certain tacit concessions in other areas, particularly on the question of supplying weapons to North Vietnam in 1973, and 1974, before the fall of the Saigon regime. However, in times when the superpower relationship is strained, economic pressure can have very little utility, except to signal our displeasure. If that is our chief goal, then it serves that function.

Further, the Soviets' détente policies have given them several alternative suppliers in the West to whom they can turn for many of the inputs that we can supply. That was far less true in the 1950's and early 1960's. So, we have much more limited leverage in cases where our West European or Japanese allies are unwilling to go along with us.

THE UNITED STATES-SOVIET GRAIN TRADE

Senator PRESSLER. What about the grain trade with the Soviets? We keep hearing that they are attempting to make their collective farms produce more. This is difficult for them as the U.S.S.R. is at a latitude north of Montreal in terms of climate.

Will they continue to need to import large amounts of food?

Mr. CAMPBELL. Well, one of the most important things to remember here is that their imports are food for animals, by and large. So, this is part of an effort to increase meat output to vary and improve the consumer diet.

That remains a very important goal that they cannot easily give up. It is easy to say that when the Russians have a crop failure these days, it still represents a very much larger grain harvest than ever was the case in the past. Thus, it seems that the real essence of the question is whether they can improve their own

grain production performance enough so that they can do without these imports.

I think the general perspective on that that most economists would take is that such a strategy would be an extremely expensive policy to undertake, one that they really cannot afford to pursue. The Soviets might try to do it, but it would be foolish. There will certainly be ups and downs in their grain harvests, and, therefore, there will continue to be a need for outside supplies. It also makes very important sense politically and economically for them to continue to import grain from abroad.

Mr. PARROTT. Immediately after the American partial grain embargo, the Soviets did show a new interest in long-term self-sufficiency in agricultural products. Their leadership began to talk obviously about that.

However, there is a vast gulf between declarations and achievements. I think the Soviets face an enormous problem not only in terms of the allocation of resources but in terms of the political and economic reorganization of the agricultural sector. They are a very long way from achieving such a goal.

Mr. KAUFMAN. A good argument can be made that it is not in their interest, as Bob Campbell implied, to engage in the very expensive and difficult task of restructuring their agricultural sector or making whatever changes would be necessary in order to get that additional grain output, so long as supplies are available on the world market, and so long as they have the hard currency reserves to obtain those supplies.

I think they probably demonstrated to themselves satisfactorily that they do have this option, that it does make economic sense to use the international market to satisfy these grain requirements, and that they have other priorities for their investment.

Senator PRESSLER. I have a final question about the Soviet Navy. Although it was modernized dramatically under Gorshkov, the Soviet Navy still has serious limitations. Fleet air defense is weak, logistical deficiencies impede lengthy large-scale operations in ocean areas, and amphibious assault capabilities are modest. Given the many other demands on the Soviet economy, what level of continued Soviet naval development can we expect to see in the years ahead?

Let me add to that question that I am told that a lot of the statistics we see comparing United States naval power with Soviet power are not so accurate. Many experts argue that the Soviet ships are in ice-jammed harbors, that they are not operational, or that their submarines are antequated. I don't know if that is true or not.

Mr. KAUFMAN. An examination of the data about Soviet deployments and the order of battle would show, I believe, that there have not been major increases in the production of naval ships in the last few years.

It is true that in the recent past, they have managed to establish a blue water navy for themselves, and that they have increased very greatly their naval capabilities.

However, if one looks at the production and deployment data to see what they have added to their inventory in the last 5 years or so, it is difficult to make the case that there is any major naval

buildup going on relative to the other components of their force structure.

Senator PRESSLER. The Soviets have greatly reduced their debt burden in recent years. Their trade imbalance is down, their exports are up, and their long-term trade agreements with several countries, including the United States, have reduced their vulnerability to price shifts. Thus, they have greatly increased their potential for credit. Why haven't they used this credit worthiness to borrow? Will they do so in the future, and for what needs?

SOVIET TRADE WITH THE UNITED STATES

Mr. CAMPBELL. Apart from the issue of the ups and downs in their hard currency balance and their level of indebtedness, it has been characteristic of the Soviets throughout their entire history to be reluctant to become very much dependent on foreign credit. They have tried very hard to keep that foreign indebtedness down.

That concern stems from very deeply seated policy attitudes on their part. They would never have let themselves get into the kind of situation that some of the smaller Eastern European countries did. The Russians have always been too cautious to let that happen.

I think the very interesting part of this question is how possible borrowing and technological imports might fit into a strategy for the coming 12th 5-year plan.

There has been a trend noted by many observers in recent years in the commentaries of Soviet economists, planning and political officials, expressing some disillusionment with the policy of expanded trade and technology transfer as a solution to their problems. There are certain internal vested interests that find such a strategy opposed to their best interests. The experience has in some ways not always been satisfactory.

Much of this foreign expenditure has been for efforts that do not, indeed, get mastered or that take a very long time to come onstream.

So, there is a kind of lobby within the Soviet Union that says and trade and expanded technological imports are not really going to solve our problem, and that we ought to look to our own resources.

So, we come into this period with that kind of background. A policy initiative that might be taken would be to expand trade, particularly with Western Europe and with Japan as alternative sources for the United States. However, I see no indication in any Gorbachev speech of a turn in that direction.

Moreover, there is an objective difficulty. Soviet hard currency earnings are extremely dependent on oil and gas, especially oil. Here is a place where the decline in oil output could easily put a very important constraint on their ability to expand trade.

I really do not see them going into debt beyond traditional limits in order to finance large imports.

Mr. PARROTT. I would like to make one brief comment.

Gorbachev did, in a recent speech, refer to the need to use foreign economic relations more wisely. There was something unusual about the formulation which suggested that he might be thinking

about departures in this direction. Unfortunately, there are no clear signs of what he has in mind.

Senator PRESSLER. I thank the panel very much.

We will continue this afternoon with a closed session.

I want to make a part of the record the list of the topics to be discussed in the series. They include, of course, this morning's "Soviet Imperatives for the 1990's." The following sessions are entitled "Soviet Active Measures, "The 'Crisis of Will' in the NATO Alliance," "The 'Crisis of Will' in the Warsaw Pact," "A NATO Strategy for the 1990's," and "NATO as the Priority in U.S. Policy."

We thank our witnesses this morning very much for their contribution and we will continue these discussions.

This committee will be adjourned until 2 o'clock this afternoon.

Thank you very much.

[Whereupon, at 12:16 p.m., the committee adjourned subject to call of the Chair.]

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